

OPEN MEETING ITEM



COMMISSIONERS
DOUG LITTLE - Chairman
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOSI



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EXECUTIVE DIRECTOR

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ARIZONA CORPORATION COMMISSION

JUN-17-2016 A 11:28

AZ CORP COMMISSION
DOCKET CONTROL

DATE: JUNE 17, 2016
DOCKET NO.: W-04069A-16-0080

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Belinda Martin. The recommendation has been filed in the form of an Order on:

OATMAN WATER COMPANY, LLC
(RATES)

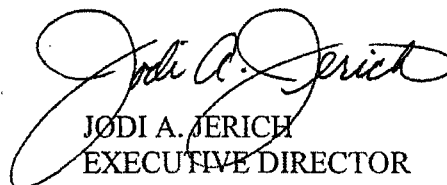
Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

JUNE 27, 2016

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

JULY 12 AND 13, 2016

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.


JODI A. JERICH
EXECUTIVE DIRECTOR

Arizona Corporation Commission

DOCKETED

JUN 17 2016

DOCKETED BY



1200 WEST WASHINGTON STREET, PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET, TUCSON, ARIZONA 85701-1347

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 DOUG LITTLE - Chairman
4 BOB STUMP
5 BOB BURNS
6 TOM FORESE
7 ANDY TOBIN

8 IN THE MATTER OF THE APPLICATION OF
9 OATMAN WATER COMPANY, LLC. FOR A
10 PERMANENT RATE INCREASE.

DOCKET NO. W-04069A-16-0080

DECISION NO. _____

11 ORDER

12 Open Meeting
13 July 12 and 13, 2016
14 Phoenix, Arizona

15 **BY THE COMMISSION:**

16 Having considered the entire record herein and being fully advised in the premises, the Arizona
17 Corporation Commission ("Commission") finds, concludes, and orders that:

18 FINDINGS OF FACT

19 Procedural History

20 1. On March 3, 2016, Oatman Water Company, LLC ("OWC" or "Company") filed an
21 application with the Commission for a permanent rate increase, and on March 17, 2016, the Company
22 filed an amendment to the application (collectively, the "Application"). OWC provided a copy of the
23 notice sent to customers on March 3, 2016, regarding the Application. Three customers filed opinions
24 with the Commission objecting to the Company's proposed rate increase.

25 2. On April 1, 2016, the Commission's Utilities Division ("Staff") filed its Sufficiency
26 Letter stating the Application was sufficient pursuant to Arizona Administrative Code ("A.A.C.") R14-
27 2-103, and classifying OWC as a Class E utility.

28 3. On May 31, 2016, Staff submitted its Staff Report, recommending approval of the
Application using Staff's proposed rates and charges, subject to certain terms and conditions.

4. The Company did not file any comments to the Staff Report.

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1 **Company Background**

2 5. OWC is an Arizona limited liability company providing water service to customers in
3 the Town of Oatman, approximately 40 miles west of Kingman. The Commission approved OWC's
4 current rates and charges fifteen years ago in Decision No. 63626 (May 4, 2001).

5 6. OWC's water system consists of one active well yielding 20 gallons of water per minute,
6 one currently inactive well, one 50,000 gallon storage tank, two unused storage tanks, and the
7 distribution system, serving approximately 99 connections. Staff concluded that OWC's system has
8 adequate production and storage capacity to serve existing customers and reasonable growth.

9 7. Staff observed that the well identification signage required by the Arizona Department
10 of Water Resources ("ADWR") is incorrect. Staff recommends that the Company post the correct
11 ADWR well identification number at Well Site No. 1.

12 8. OWC drilled the inactive well, Well No. 2, in 2003. According to Staff, in 2004 rain
13 caused the cave-in of a mine shaft near Well No. 2, resulting in the portion of the transmission main
14 from Well No. 2 over the mine shaft to collapse, rendering the well inoperable. Staff also noted that
15 the Company had never installed a sanitary seal on the well or a security enclosure with correct ADWR
16 well identification signage at Well Site No. 2.

17 9. The Company advised Staff that it plans to replace the damaged transmission main and
18 bring the well back on-line. OWC believes this is necessary because the Company may need to have
19 a second source of water to blend with the water from Well No. 1 in the future, and also to have an
20 additional production source should Well No. 1 fail or experience decreased production.

21 10. Staff recommends that OWC install a sanitary seal on Well No. 2, and a security
22 enclosure with the correct ADWR well identification signage at Well Site No. 2.

23 11. According to Staff, OWC's monthly production amounts during the test year were not
24 included on the Water Use Data Sheet attached to the Application and Staff could not calculate water
25 loss. OWC explained that the hard water from the aquifer interferes with Well No. 1's production meter
26 causing inaccurate production results.

27 12. Given lack of water use data, Staff recommends that the Company inspect and maintain
28 Well No. 1's production meter on a regular basis to ensure reliable and accurate production figures can

1 be obtained from the meter.

2 13. Staff also recommends that the monthly production figures from Well No. 1
3 be entered on the Water Use Data Sheet submitted with its corresponding Utilities Division Annual
4 Report.

5 14. Staff further recommends that OWC monitor its water system for a 12-month period to
6 prepare a water loss report. According to Staff's recommendation: the Company should account for its
7 Unbilled Authorized Consumption and remove that quantity from the water loss calculation; if the
8 reported water loss is greater than 10 percent, OWC should prepare a report containing a detailed
9 analysis and plan to reduce water loss to less than 10 percent; if the Company believes it is not cost
10 effective to reduce the water loss to less than 10 percent, the Company should submit a detailed
11 cost/benefit analysis to support its opinion; in no case should the Company allow water loss to be
12 greater than 15 percent; and if it is necessary, the water loss reduction report or the detailed cost benefit
13 analysis, whichever is submitted, shall be docketed as a compliance item within 18 months of the
14 effective date of this Decision.

15 15. OWC is not within an ADWR active management area. In a Compliance Status Report
16 dated March 31, 2016, ADWR determined that OWC's water system is not in compliance with
17 departmental requirements governing water providers and/or community water systems.

18 16. Staff recommends that the Company file with Docket Control, as a compliance item in
19 this docket, within 90 days of the effective date of this Decision, documentation demonstrating that the
20 Company's 2008 and 2013 System Water Plans have been submitted to ADWR, and that OWC is in
21 compliance with ADWR regulations.

22 17. Staff observed that in a Compliance Status Report dated April 26, 2016, the Arizona
23 Department of Environmental Quality ("ADEQ") determined that OWC is in full compliance with
24 ADEQ requirements and is currently delivering water that meets water quality standards required by
25 A.A.C., Title 18, Chapter 4.

26 18. Staff's recommendations are reasonable and we adopt them.

27 19. OWC has Commission-approved Backflow, Curtailment, and Best Management
28 Practices Tariffs.

20. Staff's review of the Commission's Consumer Services records shows that between January 1, 2013, and May 9, 2016, there were no inquiries or complaints filed against OWC. The Commission's Corporations Division reports that OWC is in good standing.

21. OWC is current on its property and sales tax payments.

22. Because an allowance for the property tax expense is included in OWC's rates and will be collected from its customers, the Commission seeks assurances from OWC that any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the Commission's attention that a number of water companies have been unwilling or unable to fulfill their obligation to pay the taxes that were collected from its ratepayers, some for as many as twenty years. It is reasonable, therefore, that as a preventive measure OWC shall file annually, as part of its Utilities Division Annual Report, an affidavit attesting that the Company is current in paying its Arizona property taxes.

Rate Application

23. During the test year ending December 31, 2015, OWC served approximately 99 customers. The average and median water use by customers on the 5/8 x 3/4-inch meters were 2,203 gallons and 1,496 gallons per month, respectively.

24. OWC's present rates and charges, as proposed by the Company, and as recommended by Staff, are as follows:

	Present Rates	Proposed Rates Company	Proposed Rates Staff
<u>MONTHLY USAGE CHARGE:</u>			
5/8 x 3/4-inch Meter	\$ 25.00	\$ 45.00	\$ 50.00
3/4-inch Meter	29.00	50.00	55.00
1-inch Meter	34.00	60.00	65.00
1 1/2-inch Meter	49.00	80.00	85.00
2-inch Meter	87.00	120.00	125.00
3-inch Meter	124.00	160.00	165.00
4-inch Meter	191.00	225.00	255.00
6-inch Meter	358.00	400.00	425.00
8-inch Meter	0.00	0.00	500.00
10-inch Meter	0.00	0.00	600.00

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COMMODITY CHARGE:
(All classes, per 1,000 gallons)

All Meter Sizes

0 to 3,000 gallons	\$4.95	N/A	N/A
3,001 to 9,000 gallons	6.95	N/A	N/A
Over 9,000 gallons	9.10	N/A	N/A

5/8-inch x 3/4-inch Meter

0 to 3,000 gallons	N/A	\$ 7.50	\$ 9.90
3,001 to 9,000 gallons	N/A	10.00	13.90
Over 9,000 gallons	N/A	13.00	18.70

3/4-inch Meter

0 to 3,000 gallons	N/A	N/A	\$ 9.90
3,001 to 9,000 gallons	N/A	N/A	13.90
Over 9,000 gallons	N/A	N/A	18.70

1-inch Meter

0 to 9,000 gallons	N/A	N/A	\$13.90
Over 9,000 gallons	N/A	N/A	18.70

1 1/2-inch Meter

0 to 9,000 gallons	N/A	N/A	\$13.90
Over 9,000 gallons	N/A	N/A	18.70

2-inch Meter

0 to 9,000 gallons	N/A	N/A	\$13.90
Over 9,000 gallons	N/A	N/A	18.70

3-inch Meter

0 to 9,000 gallons	N/A	N/A	\$13.90
Over 9,000 gallons	N/A	N/A	18.70

4-inch Meter

0 to 9,000 gallons	N/A	N/A	\$13.90
Over 9,000 gallons	N/A	N/A	18.70

6-inch Meter

0 to 9,000 gallons	N/A	N/A	\$13.90
Over 9,000 gallons	N/A	N/A	18.70

8-inch Meter

0 to 9,000 gallons	N/A	N/A	\$13.90
Over 9,000 gallons	N/A	N/A	18.70

10-inch Meter

0 to 9,000 gallons	N/A	N/A	\$13.90
Over 9,000 gallons	N/A	N/A	18.70

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SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

			<u>Staff Recommended</u>		
	Current	Company	Service	Meter	Total
	<u>Charge</u>	<u>Proposed</u>	<u>Line</u>	<u>Installation</u>	<u>Recommended</u>
		<u>Charges</u>	<u>Charge</u>	<u>Charge</u>	<u>Charges</u>
5/8" x 3/4 " Meter	\$ 375.00	\$ 625.00	\$ 475.00	\$150.00	\$ 625.00
3/4 " Meter	435.00	725.00	475.00	250.00	725.00
1" Meter	510.00	850.00	550.00	300.00	850.00
1-1/2" Meter	740.00	1,115.00	610.00	505.00	1,115.00
2" Meter	1,300.00	1,950.00	920.00	1,030.00	1,950.00
3" Meter	1,855.00	2,850.00	1,260.00	1,590.00	2,850.00
4" Meter	2,870.00	4,308.00	1,640.00	2,668.00	4,308.00
6" Meter	5,375.00	7,500.00	2,475.00	5,025.00	7,500.00

	Present	Proposed Rates	Proposed Rates
	<u>Rates</u>	<u>Company</u>	<u>Staff</u>
<u>SERVICE CHARGES:</u>			
Establishment	\$20.00	\$30.00	\$30.00
Establishment (After Hours)	30.00	N/A	N/A
After Hours Service Charge (At	N/A	\$50.00	\$40.00
customer's request)			
Reconnection (Delinquent)	\$20.00	30.00	30.00
Meter Test (If Correct)	10.00	25.00	25.00
Meter Re-Read (If Correct)	5.00	20.00	15.00
NSF Check	20.00	25.00	20.00
Late Payment Penalty	N/A	25.00	10.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-establishment (Within 12 months)	**	**	**
Deferred Payment (Per Month)	0.00%	2.00%	2.00%

* Per Commission Rule A.A.C. R-14-2-403(B)(7).

** Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

25. Staff determined OWC's original cost rate base to be \$61,353, which is the same as its fair value rate base ("FVRB"). This is a \$43,542 decrease to OWC's proposed FVRB of \$104,895, due to Staff's adjustments to the Company's proposed plant-in-service, accumulated depreciation, and working capital amounts. OWC did not object to Staff's adjustments.

26. We find that Staff's adjustments to OWC's FVRB are reasonable and we adopt Staff's proposed FVRB of \$61,353.

27. Staff adopted OWC's proposed test year operating revenues of \$47,015.

28. Staff made several adjustments to OWC's proposed test year operating expenses, resulting in an increase of \$15,795, from \$63,291 to \$79,086, due to Staff's adjustments to OWC's proposed salaries and wages expense, water testing expense, rate case expense, depreciation expense,

1 property tax expense, and income tax expense. The Company did not object to Staff's adjustments.

2 29. Based on Staff's analysis, OWC's test year operating revenues of \$47,015 and adjusted
3 test year operating expenses of \$79,086 resulted in a test year operating loss of (\$32,071).

4 30. In its Application, OWC proposed a \$32,985 increase over test year revenues, or 70.16
5 percent, for total operating revenues of \$80,000. After proposed operating expenses of \$63,291, OWC
6 would achieve operating income of \$16,709, for a 15.93 percent rate of return, a 20.89 percent operating
7 margin, and a cash flow of \$10,404.¹

8 31. Staff recommended a \$48,272 increase over test year revenues, or 102.67 percent, for
9 total revenues of \$95,287. With recommended operating expenses of \$85,375, OWC would receive
10 \$9,912 in operating income, and would result in a 16.16 percent rate of return, a 10.40 percent operating
11 margin, and a cash flow of \$5,818. Staff's proposed revenues would result in an after-tax debt service
12 coverage ("DSC") ratio of 1.47.²

13 32. The revenues recommended by Staff allow the Company to meet all of its operating
14 expenses and the debt service on the WIFA loan, while providing sufficient resources to manage
15 contingencies.

16 33. The Company did not object to Staff's revenue recommendations.

17 34. Accordingly, we that find Staff's operating revenue, operating expense, rate of return,
18 and required revenues recommendations are reasonable and we adopt them.

19 35. OWC's proposed rates would increase the average monthly customer (2,203 gallons)
20 water bill by \$25.62, or 71.3 percent, from \$35.91 to \$61.53, and increase the median monthly customer
21 (1,496 gallons) water bill by \$23.81, or 73.5 percent, from \$32.40 to \$56.21.

22 36. Staff's proposed rates would increase the average monthly customer water bill by
23 \$35.91, or 100.00 percent, from \$35.91 to \$71.82, and increase the median monthly customer water
24 bill by \$32.40, or 100.00 percent, from \$32.40 to \$64.80.

25 37. OWC did not object to Staff's proposed rate design, rates, or charges.

26 ¹ OWC has a loan from the Arizona Water Infrastructure Finance Authority in the amount of \$163,500, authorized in
27 Decision No. 63626 (May 4, 2001). According to Staff the annual debt service on the loan is \$12,478.

28 ² DSC ratio represents the number of times internally generated cash will cover required principal and interest payments on
short-term and long-term debt. A DSC of greater than 1.0 indicates that cash flow from operations is sufficient to cover
expected debt service.

MONTHLY USAGE CHARGE:

1	5/8 x 3/4-inch Meter	\$ 50.00
	3/4-inch Meter	55.00
2	1-inch Meter	65.00
	1 1/2-inch Meter	85.00
3	2-inch Meter	125.00
	3-inch Meter	165.00
4	4-inch Meter	255.00
	6-inch Meter	425.00
5	8-inch Meter	500.00
6	10-inch Meter	600.00

COMMODITY CHARGE:**(All classes, per 1,000 gallons)**

8	<u>5/8-inch x 3/4-inch Meter</u>	
	0 to 3,000 gallons	\$ 9.90
9	3,001 to 9,000 gallons	13.90
10	Over 9,000 gallons	18.70
11	<u>3/4-inch Meter</u>	
	0 to 3,000 gallons	\$ 9.90
12	3,001 to 9,000 gallons	13.90
	Over 9,000 gallons	18.70
13	<u>1-inch Meter</u>	
	0 to 9,000 gallons	\$13.90
14	Over 9,000 gallons	18.70
15	<u>1 1/2-inch Meter</u>	
	0 to 9,000 gallons	\$13.90
16	Over 9,000 gallons	18.70
17	<u>2-inch Meter</u>	
	0 to 9,000 gallons	\$13.90
18	Over 9,000 gallons	18.70
19	<u>3-inch Meter</u>	
20	0 to 9,000 gallons	\$13.90
21	Over 9,000 gallons	18.70
22	<u>4-inch Meter</u>	
	0 to 9,000 gallons	\$13.90
23	Over 9,000 gallons	18.70
24	<u>6-inch Meter</u>	
	0 to 9,000 gallons	\$13.90
25	Over 9,000 gallons	18.70
26	<u>8-inch Meter</u>	
	0 to 9,000 gallons	\$13.90
27	Over 9,000 gallons	18.70

...

10-inch Meter

0 to 9,000 gallons	\$13.90
Over 9,000 gallons	18.70

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

	Service Line Charge	Meter Installation Charge	Total Charges
5/8" x 3/4 " Meter	\$ 475.00	\$ 150.00	\$ 625.00
3/4 " Meter	475.00	250.00	725.00
1" Meter	550.00	300.00	850.00
1-1/2" Meter	610.00	505.00	1,115.00
2" Meter	920.00	1,030.00	1,950.00
3" Meter	1,260.00	1,590.00	2,850.00
4" Meter	1,640.00	2,668.00	4,308.00
6" Meter	2,475.00	5,025.00	7,500.00

SERVICE CHARGES:

Establishment	\$30.00
After Hours Service Charge (At Customer's Request)	40.00
Reconnection (Delinquent)	30.00
Meter Re-Read (If Correct)	15.00
Meter Test (If Correct)	25.00
NSF Check	20.00
Late Payment Penalty	10.00
Deposit	*
Deposit Interest	*
Re-establishment (Within 12 months)	**
Deferred Payment (Per Month)	2.00%

* Per Commission Rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

IT IS FURTHER ORDERED that, in addition to collection of its regular rates and charges, Oatman Water Company, LLC, shall collect from its customers a proportionate share of any privilege, sales or use tax per A.A.C. R14-2-409(D).

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on and after August 1, 2016.

IT IS FURTHER ORDERED that Oatman Water Company, LLC, shall notify its customers of the authorized rates and charges and their effective date, in a form acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly scheduled billing, and shall file with Docket Control, as a compliance item in this docket, a copy of the notice sent to customers within 10 days of the date the notice was provided.

1 IT IS FURTHER ORDERED that Oatman Water Company, LLC, shall use the depreciation
2 rates shown on Table F of Attachment A to the Staff Report, on a going-forward basis.

3 IT IS FURTHER ORDERED that Oatman Water Company, LLC, shall file with Docket
4 Control, as a compliance item in this docket, within 90 days of the effective date of this Decision,
5 documentation demonstrating that the Company's 2008 and 2013 System Water Plans have been
6 submitted to ADWR, and that the Company is in compliance with ADWR regulations.

7 IT IS FURTHER ORDERED that Oatman Water Company, LLC, shall post the correct ADWR
8 well identification number at Well Site No. 1.

9 IT IS FURTHER ORDERED that Oatman Water Company, LLC, shall inspect and maintain
10 Well No. 1's production meter on a regular basis to ensure reliable and accurate production figures can
11 be obtained from the meter.

12 IT IS FURTHER ORDERED that Oatman Water Company, LLC, shall enter the monthly
13 production figures from Well No. 1 on the Water Use Data Sheet submitted with its corresponding
14 Utilities Division Annual Report.

15 IT IS FURTHER ORDERED that Oatman Water Company, LLC, shall monitor its water
16 system for a 12-month period to prepare a water loss report. The Company should account for its
17 Unbilled Authorized Consumption and remove that quantity from the water loss calculation. If the
18 reported water loss is greater than 10 percent, the Company should prepare a report containing a
19 detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is
20 not cost effective to reduce the water loss to less than 10 percent, the Company should submit a detailed
21 cost/benefit analysis to support its opinion. In no case should the Company allow water loss to be
22 greater than 15 percent. The water loss reduction report or the detailed cost benefit analysis, whichever
23 is submitted, shall be docketed as a compliance item within 18 months of the effective date of this
24 Decision.

25 IT IS FURTHER ORDERED that Oatman Water Company, LLC, shall install a sanitary seal
26 on Well No. 2, and a security enclosure with the correct ADWR well identification signage at Well
27 Site No. 2.

28 ...

IT IS FURTHER ORDERED that Oatman Water Company, LLC, shall file annually, as part of its Utilities Division Annual Report, an affidavit attesting that it is current in paying its property taxes in Arizona.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____ 2016.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

BM:rt

SERVICE LIST FOR:

OATMAN WATER COMPANY, LLC

DOCKET NO.:

W-04069A-16-0080

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